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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 004090

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SUBJECT: KRG WASHINGTON REP REPORTS ON PM MALIKI-KRG OIL
LAW TALKS

Classified By: Economic Minister Charles P. Ries for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: KRG Washington representative (and son of Iraq President Jalal Talibani) Qubad Talibani called on EMIN December 15 to convey Kurdish impressions of the "serious" bilateral meeting earlier that day between Prime Minister Nouri al-Maliki and Kurdish Regional Government (KRG) Prime Minister Nechirvan Barzani to discuss the hydrocarbons bill. PM Barzani reportedly told PM Maliki that the Kurds would not negotiate with Minister of Oil Hussein al-Shahrastani. According to Talibani, PM Barzani also suggested to PM Maliki that there were "non-Constitutional" concessions the KRG made in the February agreement that it would "take back" in light of subsequent events. Talibani said negotiations between PM Maliki's advisor Thamer Ghadban and KRG Oil Minister Ashti Hawrami would likely begin the second week of January. We will try to confirm key elements of this conversation from PM Maliki's side, but as rendered it is consistent with a general hardening of the KRG's line on the hydrocarbons bill.
END SUMMARY.

¶2. (C) Qubad Talibani called on EMIN December 15 to convey Kurdish impressions of the "serious" bilateral meeting earlier that day between PM Maliki and PM Barzani to discuss the hydrocarbons bill. The younger Talibani said he had not been present and admitted his account was second hand. But as he had it, Prime Minister Maliki was accompanied by his foreign affairs advisor Sadiq Rikabi, and perhaps others. On the Kurdish side, Barzani had been accompanied by Natural Resources Minister Ashti Hawrami, senior counselor Rosch Shaways, and VP Fattah ("representing the PUK"). Minister of Oil Shahrastani was not present.

¶3. (C) Talibani said the discussion had been a good one, serious, with "no chit-chat." Both sides agreed that the consensus solution was to stay within the Constitution. No changes to that were possible. Talibani said the two prime ministers agreed to have PM advisor Thamer Ghadban and KRG Oil Minister Ashti Hawrami resume discussions with the idea of formulating a bracketed text of the law based on the July (post-Shura Council) text and in light of the February agreement. Barzani told Maliki flatly that the Kurds would not negotiate with MoO Shahrastani (who upset the Kurds when he declared their PSA's "illegal" and informed companies that have signed PSAs with the KRG that they are no longer eligible to lift Iraqi crude).

¶4. (C) Reportedly, Barzani asked Maliki point blank whether Shahrastani was speaking for PM Maliki when he characterized the north's contracts "illegal." According to young Talibani, Maliki did not reply to that question. Barzani

also reportedly said that if Shahrستاني were speaking for the Prime Minister, he did not see how the Kurdish bloc could remain part of the unity government. (Maliki earlier co-signed a letter to Barzani calling for the "suspension" of the KRG's contracts, pending approval of the law.)

15. (C) Barzani also suggested that there were "non-Constitutional" concessions the KRG had made in the February agreement that it would "take back" in light of subsequent events. The younger Talibani said the KRG line was that the Constitution (which in Article 112 states that the federal government "with the regions".. "shall undertake management" of oil and gas resources) required more than just consultation through the Federal Oil and Gas Council (FOGC) with respect to the MoO policy direction of the state oil companies (and with respect to an INOC when formed). Yet the Kurdish position is that the Constitution (articles 115 and 121) gives it effectively full power over its own oil and gas resources without need for review by the FOGC for consistency with the model agreements as was provided for in the draft Hydrocarbons Framework Law (HCL). Talibani also repeated Kurdish concerns about likely adequacy of oversight of the state enterprises under the purview of the MoO, including the yet to be established INOC.

16. (C) We asked Talibani if PM counselor Thamir Ghadban is willing to re-involve himself in negotiations about the HCL. Talibani said he would be, if he receives "full authority" from the PM to do so. Talibani said the Ghadban-Hawrami discussions are likely to begin the second week of January. The Kurdish side would be open to involvement by outside lawyers and wants to have control over the text. Involvement by USG experts was not discussed.

17. (C) COMMENT: We'll have to see if we can confirm key

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elements of this conversation from PM Maliki's side. As rendered, however, it is consistent with a general hardening of the KRG's line on the hydrocarbons bill. In recent weeks Barzani has indicated to Deputy Secretary Kimmitt and Under Secretary Jeffery that the KRG is thinking that it cannot

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allow its contracts to be reviewed (for consistency with the principles and model contracts adopted pursuant to an enacted HCL), at least as long as Hussein Shahrستاني is Minister of Oil. Kurdish interlocutors also emphasize the importance of their oversight over development decisions relating to existing fields. While they mention the importance of sound development of the southern fields, their eyes may also be on whether the nascent Kurdish Regional Oil Company could gain operating control over the super giant Kirkuk oil field closer to the KRG.

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